



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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DARLENE GREEN
Comptroller

Internal Audit Section

DR. KENNETH M. STONE, CPA
Internal Audit Executive

May 27, 2010

Michael K. Holmes, Executive Director
St. Louis Agency on Training and Employment
1520 Market Street
St. Louis, MO 63103

RE: Summer Youth Program (Project #2010-21)

Dear Mr. Holmes:

Enclosed is the Internal Audit Section's special review report of the St. Louis Agency on Training and Employment (SLATE) for the period April 1, 2009 through September 30, 2009. This special review was conducted in response to an anonymous allegation of improprieties in the processing and handling of payroll expenditures for the Summer Youth Program in 2009.

The audit objectives were to determine if SLATE's Summer Youth Program effectively and efficiently manages risks to ensure:

- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- That there were no improprieties in payroll expenditures

Fieldwork was completed on April 23, 2010. Management's responses to the observations and recommendations noted in the report were received on May 26, 2010, and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 622-4723.

Respectfully,

A handwritten signature in black ink that reads "Kenneth M. Stone". The signature is written in a cursive style with a large, stylized "K" and "S".

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

Cc: Mark Runyan, Quality Assurance Auditor, Missouri Career Center, Division of
Workforce Development



CITY OF ST. LOUIS

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ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT

SPECIAL REVIEW – SUMMER YOUTH PROGRAM

APRIL 1, 2009 THROUGH SEPTEMBER 30, 2009

PROJECT #2010–21

DATE ISSUED: MAY 27, 2010

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

CITY OF ST. LOUIS
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT
SUMMER YOUTH PROGRAM
SPECIAL REVIEW
APRIL 1, 2009 THROUGH SEPTEMBER 30, 2009

EXECUTIVE SUMMARY

Purpose

The Internal Audit Section (IAS) has completed a review of SLATE's Summer Youth Program. The purpose was to determine if SLATE effectively and efficiently manages risks to ensure:

- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- That there were no improprieties in payroll expenditures

Conclusion

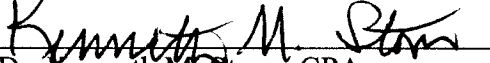
Based upon the testing conducted and interviews of SLATE personnel, we noted opportunities for SLATE to improve the internal controls over compliance with applicable laws, regulations, policies and procedures, and operational and fiscal activities. We were unable to substantiate the allegations of improprieties in payroll expenditures during the Summer Youth Program for 2009. The following are observations resulting from the review:

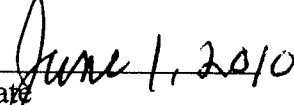
1. Opportunity to enhance internal control over participant's payroll timesheets.
Questioned cost \$6,110
2. Opportunity to enhance internal controls over the calculations of hours worked during a pay period. Questioned cost \$588
3. Opportunity to improved internal controls over reporting company participation
4. Opportunity to enhance internal controls over payroll processing procedures
5. Failure to comply with the Fair Labor Standards Act, child labor laws requirements entitling minor employees to receive the same overtime protection as adult workers

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

CITY OF ST. LOUIS
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT
SUMMER YOUTH PROGRAM
SPECIAL REVIEW
APRIL 1, 2009 THROUGH SEPTEMBER 30, 2009


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

CITY OF ST. LOUIS
ST. LOUIS AGENCY ON TRAINING AND EMPLOYMENT
SUMMER YOUTH PROGRAM
SPECIAL REVIEW
APRIL 1, 2009 THROUGH SEPTEMBER 30, 2009

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INTRODUCTION

Background

St. Louis Agency on Training and Employment (SLATE) is a federally funded program that helps people with their job search through employment and training assistance, such as career assessments, job leads, career counseling, skills training, GED computer lab, job fairs, workshops, resume writing assistance and much more. The SLATE Missouri Career Center also helps businesses find qualified workers, provides labor market information, wage information, tax credit assistance, federal bonding for certain new hires, and more.

SLATE operated a Next Generation Job Team (NGJT) program in the St. Louis Metropolitan area with funding from the American Recovery and Reinvestment Act (i.e.; the Summer Youth Program). The Summer Youth Program was divided into two parts; the 15% NGJT targeting youths from 16-24 years old high school and college students providing opportunity for exposure to a possible career of interest and/or field of study, and the 85% NGJT targeting youths ages 14-24 years old in-and out-of-school. SLATE executed its NGJT contract on April 10, 2009. SLATE processed applications for 2048 youths (1641 had to be processed within 24 days) and 461 companies which would offer employment for participating youths.

Purpose

The purpose was to determine if SLATE's Summer Youth Program effectively and efficiently manages risks to ensure:

- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial and operational information
- That there were no improprieties in payroll expenditures

Scope and Methodology

The special review was limited to internal controls in place for reporting and processing payroll and the distribution thereof. Limited tests of controls, follow-ups on prior audit observations, and other procedures considered necessary were performed. The fieldwork was completed on April 23, 2010.

Exit Conference

An exit conference was held on May 26, 2010. Alice Prince, Youth Services Manager represented St. Louis Agency on Training and Employment and Mr. Charles Harris, Audit Manager represented the Internal Audit Section.

Management's Responses

Management's responses to the observations and recommendations noted in this report were received from SLATE on May 27, 2010. The responses have been incorporated into this report.

OBSERVATIONS

Status of Prior Observations

IAS has not previously reviewed SLATE's Summer Youth Program; therefore, there were no prior observations.

Summary of Current Observations

The opportunity exists for the SLATE to improve internal controls over the Summer Youth Program's activities. The following are observations resulting from the review:

1. Opportunity to enhance internal control over participant's payroll timesheets.
Questioned cost \$6,110
2. Opportunity to enhance internal controls over the calculations of hours worked during a pay period. Questioned cost \$588
3. Opportunity to improved internal controls over reporting company participation
4. Opportunity to enhance internal controls over payroll processing procedures
5. Failure to comply with the Fair Labor Standards Act, child labor laws requirements entitling minor employees to receive the same overtime protection as adult workers

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

**1. Opportunity To Enhance Internal Control Over Participant's Payroll
TimeSheets. Questioned Cost \$6,110**

IAS selected 260 participants at random on a judgment basis, to test the attributes of internal controls over payroll processing. One of the attributes tested was the approval of participants' timesheets. Each participant is required to sign his/her timesheet attesting to its accuracy and completeness. In addition, approval is needed by the signature of a site coordinator or an employer supervisor. It was noted that three timesheets for one pay period from the ACE Development Company were xerographic copies with the only changes being the white-out and insertion of another participant's name and social security number.

Good internal control procedures require reasonable assurance that documentation pertaining to and submitted with the payroll activities are confirmed, error free and, approved by management. Federal regulations for participant programs require that each participant sign and attest to the correctness and completeness of their timesheets and a supervisory signature verifying the same information.

SLATE summer youth staff did not review the timesheets submitted by ACE Development Company for reasonableness. In addition, it appears that ACE Development Company did not have internal controls in place to ensure that each participant prepared and signed his/her own timesheet.

Duplicated documents cannot be accepted as original proof of effort for individual participants. The xerographic copy of timesheets does not provide proof of actual time worked by individual participants. The grant contract requires SLATE to repay from non-grant funds all expenditures determined to be unallowable.

Recommendation

We recommend that the \$6,110 in payroll cost represented by the xerographic copies of time sheets be rejected and that the participating company be asked to repay SLATE the wages paid. In addition, SLATE fiscal staff should closely examine timesheets submitted for reasonableness and for participant's and supervisor's signatures.

Management's Responses

In the future, SLATE's Fiscal Department will more closely examine timesheets submitted for reasonableness for participants' and supervisors' signatures. The employer has verbally verified the authentication of the timesheets. SLATE will obtain a notarized statement from ACE Development attesting to the authenticity of the timesheets.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

2. Opportunity To Enhance Internal Controls Over The Calculations Of Hours Worked During A Pay Period. Questioned Cost \$588

IAS selected 32 of the staff members hired during the program at random on a judgment basis, to test the attributes of internal controls over payroll processing. One of the attributes tested was the recalculation of hours worked indicated on staff member's timesheets. Nine adjustments were noted on the hours worked for miscalculation of the totals. SLATE's fiscal department caught eight of the nine errors. The one remaining staff member miscalculated hours worked, totaling \$588 in payroll cost.

Good internal control procedures require reasonable assurance that documentation pertaining to and submitted with the payroll activities are confirmed, error free and, approved by management. In addition, federal regulations require that personnel activity reports or equivalent documentation must meet the following standards (in part) . . . must account for the total activity for which each employee is compensated.

SLATE fiscal management and program management staff failed to catch the error in hours reported.

An error in the calculation of hours worked has resulted in the questioning of \$588 in over payment in payroll cost. The grant contract requires SLATE to repay from non-grant funds all expenditures determined to be unallowable.

Recommendation

We recommend that the over payment of payroll cost be rejected as unallowable and that SLATE seeks repayment from the staff member involved.

Management's Responses

SLATE will seek reimbursement from the employee in question.

3. Opportunity To Improved Internal Controls Over Reporting Company Participation

SLATE processed 461 applications for companies to participate in the Summer Youth Program. Participants were to be assigned to a company and the participant and company match was reported to the state monthly. Forty-six companies were selected at random on a judgment basis, to test their application for admission to the program. Twelve of the selected companies stated that they did not participate in the program and two did not respond to inquiries. However, cross referencing of participant tested revealed that seven companies that did not participate and the two non-responding companies had participants

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

assigned to them and received pay checks during the summer. Further testing of the participants' fiscal file folders revealed that the participants were transferred to other participating companies and their time worked was verified. However, SLATE's final report to the state on participation still listed five of the non-participating companies.

Good internal control procedures require the accuracy of program data submitted to the state on the effectiveness and companies participating in the program. The grant contract requires that SLATE seek employers that are committed to helping participants receive the experience and training that is required to meet the work readiness goals set for the summer employment participants.

There was a weakness in SLATE internal control procedures for program reporting. SLATE's program managers failed to update its corporate participant listing regularly for reporting to the state.

SLATE's final report to the state on corporate participation was incorrect as five of the companies did not participate in the program.

Recommendation

We recommend that SLATE institute a program of periodic review of corporate participation and make changes to the monthly state reports when companies no longer participate. In addition, communication should be established with any corporate participants that initially signed up for the program and later withdrew to determine the reason(s). Efforts should be made to secure a wide selection of corporate participants to ensure variety of opportunities for youth participants.

Management's Responses

SLATE's Business Services Program manager will create a spreadsheet that will better track and identify employers who:

- *Attend the business orientation but decide not to participate in the program.*
- *Attend the business orientation and participate in the program but decided not to complete the entire summer program.*
- *And businesses who attend the business orientation and complete the entire summer program.*

The Business Services Department will continue to recruit diverse businesses that offer meaningful work experience for youth.

4. Opportunity To Enhance Internal Controls Over Payroll Processing Procedures

IAS tested 260 participants and 32 staff members for attribute of internal controls over payroll processing. Certain weaknesses were noted that resulted in questioned costs (see

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

Observations Nos. 1 & 2 above). There were additional weaknesses that did not result in questioned cost; however, the potential exists that in the normal course of performing their assigned functions, management would fail to prevent or detect noncompliance with requirements of a federal program on a timely basis. The following is a listing of weaknesses noted:

- Employment file folders were missing for 14 staff members and 54 of the youth participants, from the general file room during the initial search. These folders were subsequently located, however it appear that management was not aware of when files are removed from the central file room and who had control of them.
- Timesheets for 20 staff members were not signed by the employee but were verified as correct by the Youth Services Manager. Subsequent review of daily sign-in sheets verified the legitimacy of the time worked.
- Verbal commands were given to override control procedures for verifying the hours worked during several pay periods.

Federal regulations require that management be responsible for the quality and timeliness of program performance, increasing productivity, controlling costs and mitigating adverse aspects of agency operations, and assuring that programs are managed with integrity and in compliance with applicable laws. These controls would include, in part; (i) resources are used consistent with the agency mission; (ii) programs and resources are protected from waste, fraud, and mismanagement; (iii) laws and regulations are followed.

There were weaknesses in internal controls over the processing of payroll for participants and staff.

The weaknesses noted in internal controls over payroll processing resulted in the questioned costs note in Observation Nos. 1 & 2 above. In addition, there is potential for further losses if weaknesses are not corrected.

Recommendation

We recommend that SLATE review its internal controls over payroll processing to strengthen control over employment files. In addition, SLATE should require adherence to established procedures requiring staff to sign and attest to the correctness of their own timesheet and the requirement of management review and signature. Internal controls should not be circumvented or changed by verbal commands.

Management's Responses

SLATE is in the process of creating an electronic database for the filing system. The system is at 95% completion. The system will be able to track all files kept in the file room.

With the recommendation of the Internal Audit Section, SLATE has created a "Re-delegation of Duties" form. The "Re-delegation of Duties" form will be used anytime a

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

manager has authorized a staff person to perform duties outside of their normal scope of work.

Timesheets will not be paid if both the manager's and employee's signatures are not noted on the timesheets.

5. Failure To Comply With The Fair Labor Standards Act, Child Labor Laws Requirements Entitling Minor Employees To Receive The Same Overtime Protection As Adult Workers

SLATE failed to comply with the Fair Labor Standards Act, child labor laws requirements entitling minor employees to receive the same overtime protection as adult workers. Staff members and participants of the Summer Youth Program worked overtime on a regular basis. Staff members and youth participants were paid straight-time, and on a limited basis granted compensated time-off on a straight time basis.

The grant contract requires that a covered minor employee is entitled to receive the same minimum wage, overtime, safety and health, and non-discrimination protections as adult workers. This requirement is in compliance with Fair Labor Standards Act (FLSA).

SLATE's management believed that the temporary and part-time employees of the Summer Youth Program were exempt from the over-time requirements of the FLSA.

Staff and participants who worked more than 40 hours per week were denied payment of one and a half-time their wage rate for over time hours worked. There is no estimate of the total dollar impact for failure to pay over time.

Recommendation

We recommend that SLATE revise its over time procedures to include staff member and youth participants of future Summer Youth Programs. SLATE should seek direction from the state on how to handle the issue of earned over time pay for staff members and participants from the prior year's Summer Youth Program.

Management's Responses

SLATE will review and change their internal policy pertaining to the temporary / part time program aids and interns to meet FLSA policy.